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Message Text

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ACTION SS-25

INFO OCT-01 ISO-00 SSO-00 /026 W
----------065109 060553Z /17
O 051344Z JUL 77
FM AMEMBASSY OTTAWA
TO SECSTATE WASHDC IMMEDIATE 3991

C O N F I D E N T I A L OTTAWA 5812

EXDIS

E.O. 11652: GDS
TAGS: ENRG, CA
SUBJECT: NEB DECISION: WHAT IT MEANS

DEPARTMENT PASS WHTE HOUSE FOR VICE PRESIDENT, SCHLESINGER
AND GOLDMAN, FEA FOR O'LEARY

REF: OTTAWA 5811

1. SUMMARY. NEB DECISION IN FAVOR OF ALCAN SETS A CLEAR TREND, WHICH GOC IS LIKELY TO TAKE IN ABSENCE OF CONTRARY SIGNALS FROM US. IF WE WISH TO MAKE SUCH SIGNALS, WE SHOULD DO SO THIS MONTH. END SUMMARY.

2. NEB DECISION TO DENY ARTIC GAS APPLICATION AND RECOMMEND ALCAN FOR CABINET APPROVAL SUBJECT TO CONDITIONS OFFERS THE GOVERNMENT A LOW-RISK, EXPEDITIOUS WAY THROUGH THE PIPELINE DECISION.

3. CONDITIONS PROPOSED ARE CLEARLY DESIGNED (AND WOULD PROBABLY BE SUFFICIENT) TO SATISFY THE TWO MAIN POCKETS OF RESISTANCE TO ALCAN HERE: THE YUKON INDIANS AND CANADIANS WHO ARE CONCERNED THAT THE PRESENT PROPOSAL DOES NOTHING FOR CANADIAN GAS SUPPLY. THE UP TO 200 MILLION DOLLARS OF COMPANY-FUNDED "INDIRECT SOCIAL AND ECONOMIC COSTS"
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WOULD PROVIDE MEANS TO BUY OFF THE INDIANS, AND FOR THE CURRENT HARDLINING IN WHITEHORSE OFFICIALS HERE ARE CONFIDENT THEY WILL COME TO ERMS. NEB RECOMMEND-ATIONS THAT THE ALCAN LINE BEND NORTH TO DAWSON AND THAT APPLICATION FOR THE DEMPSTER LINK TO THE DELTA BE MADE ARE WELL AIMED AT CONCRNS ABOUT CANADIAN ENERGY SUPPLY, PROVIDED OF COURSE THEY DON'T TILT THE DECISION TOWARDS

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EL PASO.

4. WHAT HAPPENS NEXT DEPENDS VERY MUCH ON WHAT US DOES.

5. IF WE MAKE NO DISCOURAGING NOISES (OR OFFER ENCOURAGE-
MENT) ODDS ARE LONG THAT GOC WILL GO FOR ALCAN ON
CONDITIONS IN EARLY AUGUST. ALREADY NOW NEB DECISION
WILL CREATE A BANDWAGON PSYCHOLOGY, AND WE MAY HAVE TO
GUARD AGAINST A TENDENCY FOR AOFFICIALS TO PILE ON NEW
CONDITIONS ON THE ASSUMPTION THAT WHATEVER CANADA OFFERS,
THE US WILL TAKE. POTENTIAL ADDED BENEFIT FOR TRUDEAU IN
THIS SCENARIO IS THAT IT WOULD FREE HIM UP TO CALL A FALL
ELECTION TO TAKE ADVANTAGE OF HIS CURRENT, PERHAPS SHORT-
LIVED LEAD IN THE POLLS.

6. BUT IF WE BEGIN TO SIGNAL THAT WE HAVE REAL PROBLEMS
WITH ALCAN. THAT WOULD HAVE A MAJOR AND PERHAPS DECISIVE
EFFECT HERE. IT WOULD BE A MESSY SCENARIO: TRUDEAU
WOULD HAVE TO GO FOR LEGISLATION, TAKE ON ENVIRONMENTAL,
PRO-NATIVE GROUPS, NATIONALIST CONSTITUENCIES. HE WOULD
PROBABLY HAVE TO FIGHT THE ELECTION ON THE ISSUE. FOR
ALL OF THOSE REASONS, IT'S A LONG SHOT. BUT IT CAN'T BE
RULED OUT. THROUGH AN INTERMEDIARY TRUDEAU ASSERED ME
TONIGHT, IN RESPONSE TO MY QUERY, THAT NO OPTION
INCLUDING LEGISLATION CAN NOW BE RULED OUT. IF CANADA
THOUGHT THAT THE US WOULD GO EL PASO IF ONLY ALCAN WERE
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OFFERED, I BELIEVE THEY WOULD GIVE MOST SERIOUS CONSIDER-
ATION TO LEGISLATING THE MACKENZIE, IN ORDER TO OBTAIN
THE JOBS AND LONG-TERM ENERGY BENEFIT.

7. CLEARLY IF WE ARE TRENDING TOWARDS EL PASO INDEPEND-
DENTLY, WE SHOULD FIND SOME WAY TO SIGNAL THAT BEFORE
CANADA GETS TOO FAR OUT ON A LIMB.

8. FOR THE PAST SEVERAL MONTHS THE US (THROUGH THE
DIPLOMATIC WORDING OF FPC AND AGENCY RECOMMENDATIONS) HAS
BEEN IN A HOLDING PATTERN IN ORDER TO AVOID THE APPEAR-
ANCE OF PRESSURING CANADA. THE NEXT PLAYS ARE OUS. IF
WE WISH TO INFLUENCE THE EMERGING TREND HERE, POSITIVELY
OR NEGATIVELY, WE SHOULD DO IT THIS MONTH BEFORE CABINET
CONSIDERATION, WHICH STARTED TONIGHT, HAS MOVED TOO FAR.
ENDERS.

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Message Attributes

Automatic Decaptioning: Z
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ENERGY, PROGRAMS (PROJECTS)
Control Number: n/a
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Sent Date: 05-Jul-1977 12:00:00 am
Decaption Date: 22 May 2009
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977OTTAWA05812
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D770241-0798, D770237-0849
Format: TEL
From: OTTAWA
Handling Restrictions:
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19770792/aaaadbss.tel
Line Count: 111
Litigation Code IDs:
Litigation Codes:
Litigation History:
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Message ID: 441a5171-c288-dd11-92da-001cc4696bcc
Office: ACTION SS
Original Classification: CONFIDENTIAL
Original Handling Restrictions: EXDIS
Original Previous Classification: UNCLASSIFIED
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: EXDIS
Reference: 77 OTTAWA 5811, 77 OTTAWA 6
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 22-Dec-2004 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 1966184
Secure: OPEN
Status: NATIVE
Subject: NEB DECISION: WHAT IT MEANS DEPARTMENT PASS WHTE HOUSE FOR VICE PRESIDENT, SCHLESINGER AND GOLDMAN, FEA FOR O\'LEARY
TAGS: ENRG, APER, AFSP, CA, (ENDERS, THOMAS O)
To: STATE EUR
Type: TE
vdkvgwkey: odbc://SAS/SAS.dbo.SAS_Docs/441a5171-c288-dd11-92da-001cc4696bcc
Review Markings:
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Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009